



DECEMBER 2016

CLASSROOMS FIRST INITIATIVE COUNCIL



FINAL REPORT



COUNCIL MEMBERSHIP



Governor Doug Ducey
Co-Chair
June 2015 - Present



Jim Swanson
Co-Chair
President/CEO
Kitchell
June 2015 - Present



Diane Douglas
Superintendent of Public
Instruction
Department of Education
June 2015 - Present



Annie Gilbert
Director of School
Operations & Finance
Ball Charter Schools
June 2015 - Present



Brian Capistran
School Superintendent
Glendale Union High
School District
June 2015 - Present



Ken Hicks
Chief Financial Officer
Peoria Unified School
District
June 2015 - Present



Tim Carter
County School
Superintendent
Yavapai County
June 2015 - Present



Beth Maloney
Teacher
Dysart Unified School
District
June 2015 - Present



Susan Chan
Charter Operator
Kingman Academy
of Learning
June 2015 - Present



Reginald Ballantyne III
President
State Board of Education
August 2016 - Present



Alicia Alvarez
Principal
Leona Group, LLC
June 2015 - Present



Kathy Senseman
President
State Board for Charter
Schools
March 2016 - Present



Dawn Wallace
Senior Advisor
Education/Strategic Initiatives
Governor's Office
June 2015 - Present



Janna Day
President
State Board for
Charter Schools
June 2015 - March 2016



Greg Miller
President
State Board of
Education
June 2015 - August 2016

*Cover photo features students from Vista College Preparatory on August 8, 2015.

In May 2015, I tasked the Classrooms First Initiative Council with a lofty charge – to modernize our school finance formula to ensure adequate funding for the classroom. I want to extend my admiration and gratitude to all Council members for their tireless efforts to address current school finance concerns over the past 18 months. While school finance overhaul is a monumental task, this Council has provided an unprecedented and much-needed venue for citizens statewide to participate in open and honest policy discussions that will affect generations for years to come. Thank you for your commitment to the quality education of Arizona’s children.

-Governor Doug Ducey

“It has been a pleasure to serve the Governor and the State of Arizona to help resolve some of the complex and dynamic issues around school finance. Although this work is ongoing, it is essential to the success of the students and the State of Arizona.” – Ken Hicks

“The Governor’s Classroom First Council has been a great opportunity to hear from constituencies that care deeply about our education system. I am grateful to the Governor and his staff for the opportunity to serve and contribute to this process.” –Kathy Senseman

“An equitably funded education that is the responsibility of the state of Arizona is what our children and all of our residents need to ensure a bright and prosperous future.” - Jim Swanson

“It has been an honor to serve with such dedicated, intellectual, professional, and passionate Classrooms First Council members who have worked diligently to move Arizona education on an upward trajectory. The concepts which have been brought forward and are hereby recognized should be seriously considered for implementation. We appreciate the Governor’s strongly held vision of educational excellence, to which we all want Arizona schools to rise.” - Tim Carter

“Working on this Council has provided me with great insight into the financial side of education in Arizona. We have many talented individuals in this state who work with our students on a daily basis. Our task, as a state, is to support our teachers and schools to the degree that we can maintain excellent teachers in the classrooms, provide each student with the tools they need to reach their highest potential, and do so equally for all students.” – Susan Chan

The Classrooms First Council is a diverse group of stakeholders with many disparate viewpoints. However, we came together and found common ground to create the best possible recommendations for an equitable funding structure for the students and schools of Arizona. It has been my pleasure to serve on the Council and I hope the work will positively impact school funding in Arizona for many years to come. – Beth Mahoney

“I’ve traveled across our state for the past two years listening to how Arizonans believe we can improve our education system, and no matter where I found myself I consistently heard that the people of Arizona want higher salaries for our teachers and more money for our schools. The Council has heard this message and I will continue to work with our state’s leaders to deliver the resources necessary to ensure every Arizona student has access to an excellent education.” – Superintendent Diane Douglas

“As a member of the Council, it became apparent that all stakeholders agree in creating an equitable, consistent funding formula. A poverty weight is an element we can all agree on and must be additional funding to what students are receiving now.” – Annie Gilbert

“School funding is complex but vital to the foundation of our educational system. Being a part of the Classrooms First Council has provided me an opportunity to be a voice for students and teachers who are critical to the success of our state.” -Alicia Alvarez

TABLE OF CONTENTS

EXECUTIVE SUMMARY 4

TIMELINE OF COUNCIL WORK 7

BACKGROUND INFORMATION 7

SUMMARY OF PROPOSALS 10

RECOMMENDATIONS (EXECUTIVE ORDER) 17

RECOMMENDATIONS (COLLECTED FROM STAKEHOLDERS) 19

OTHER CONSIDERATIONS 22

ACKNOWLEDGEMENTS 23

EXHIBITS 25

EXECUTIVE SUMMARY

MISSION STATEMENT

“Arizona’s children will have access to a high quality education that promotes excellence and school choice and is equitably funded through a system of clarity, transparency, and recognition of results.”

Classrooms First Initiative Council
September 22, 2015

GUIDING PRINCIPLES AND NEXT STEPS

The Council’s [December 2015 report](#) was founded on a thorough review of the state’s current, 35-year-old system of funding public schools. Through hours of presentations and testimony from a broad spectrum of education consultants and stakeholders, the Council delivered 17 findings related to equitable funding, transparency, and alignment of education funding to academic results. This final report to Governor Ducey builds and refines the December 2015 findings by incorporating concepts presented by education organizations during an open and transparent proposal process.

The Council wishes to convey to Governor Ducey and all policymakers a strong belief that this process has been a great opportunity to make a strong statement that the state must take overall responsibility for funding an education system that provides an excellent education for every child in our state.

The Council’s recommendations are predicated on the belief that statutory changes must be implemented through a robust stakeholder process with legislative input and approval. *As such, the report identifies strategies for success but allows for a broader deliberative policy-making process that extends beyond the Council itself.*

The Council’s recommendations under [Executive Order 2016-04](#) reflect a desire to approach an overhaul of school finance through a comprehensive reform package based on the foundational principles of equity under which the current system of school finance was developed in the early 1980’s.

The Council also recognizes that recommendations contained in this report that are beyond the scope of the original [Executive Order](#) reflect a concern by the Council on the adequacy of

funding levels currently available to public schools and should be addressed. The Council also acknowledges that through almost 18 months of stakeholder engagement, a quality, outcome-based funding system must be built using best practices that move the needle on student performance. *The Council provides these recommendations to Governor Ducey and policymakers as they consider targeted investments and funding opportunities which were raised as the most impactful reforms by a diverse group of education stakeholders.*

Special Note: While the Superintendent of Public Instruction, Diane Douglas, was briefed during this process, this report more significantly reflects the work of the appointed members of the Council. However, Superintendent Douglas expressed the following support for their efforts over the past two years:

I see many of the proposals in this report as a step in the right direction, so I would like to thank my fellow Council members for their time and input through the Classrooms First process. I am pleased that school funding is being discussed at this level and plan to continue the conversation with our state's leaders and citizens in the coming weeks and months to ensure that all of the Council's recommendations will positively impact Arizona students. - Superintendent of Public Instruction Diane Douglas

SUMMARY OF RECOMMENDATIONS (UNDER THE EXECUTIVE ORDER)

Recommendation 1: Develop a simplified and single school finance formula for all public schools.

Recommendation 2: Create standardized and consolidated tax rates across school district taxing jurisdictions to develop a predictable, equitable and fair funding structure for individuals and businesses in combination with state General Fund appropriations that contributes to all K-12 students.

Recommendation 3: Reduce reliance on local property tax funding generated outside of the revenue control limit through exploration of alternative funding sources for targeted programs.

Recommendation 4: Operationalize school finance laws in rule to increase efficiency in implementation and the understandability of our system of public finance.

Recommendation 5: Allocate resources to public schools in lump sum funding and provide all public schools with the ability to operate without the constraints of onerous regulations.

Recommendation 6: Direct school systems to provide parents with school-level reports that account for actual per-pupil resources generated through the formula and the budgeted amount allocated to the school.

Recommendation 7: Develop a parent portal to explain Arizona's school finance system that includes a mechanism in which parents can calculate the amount their child generates through the state's funding formula.

Recommendation 8: Empower school leaders to be more actively involved in internal budgetary processes, not only at their school level, but through system-wide budgetary decisions.

SUMMARY OF RECOMMENDATIONS (COLLECTED THROUGH STAKEHOLDER ENGAGEMENT)

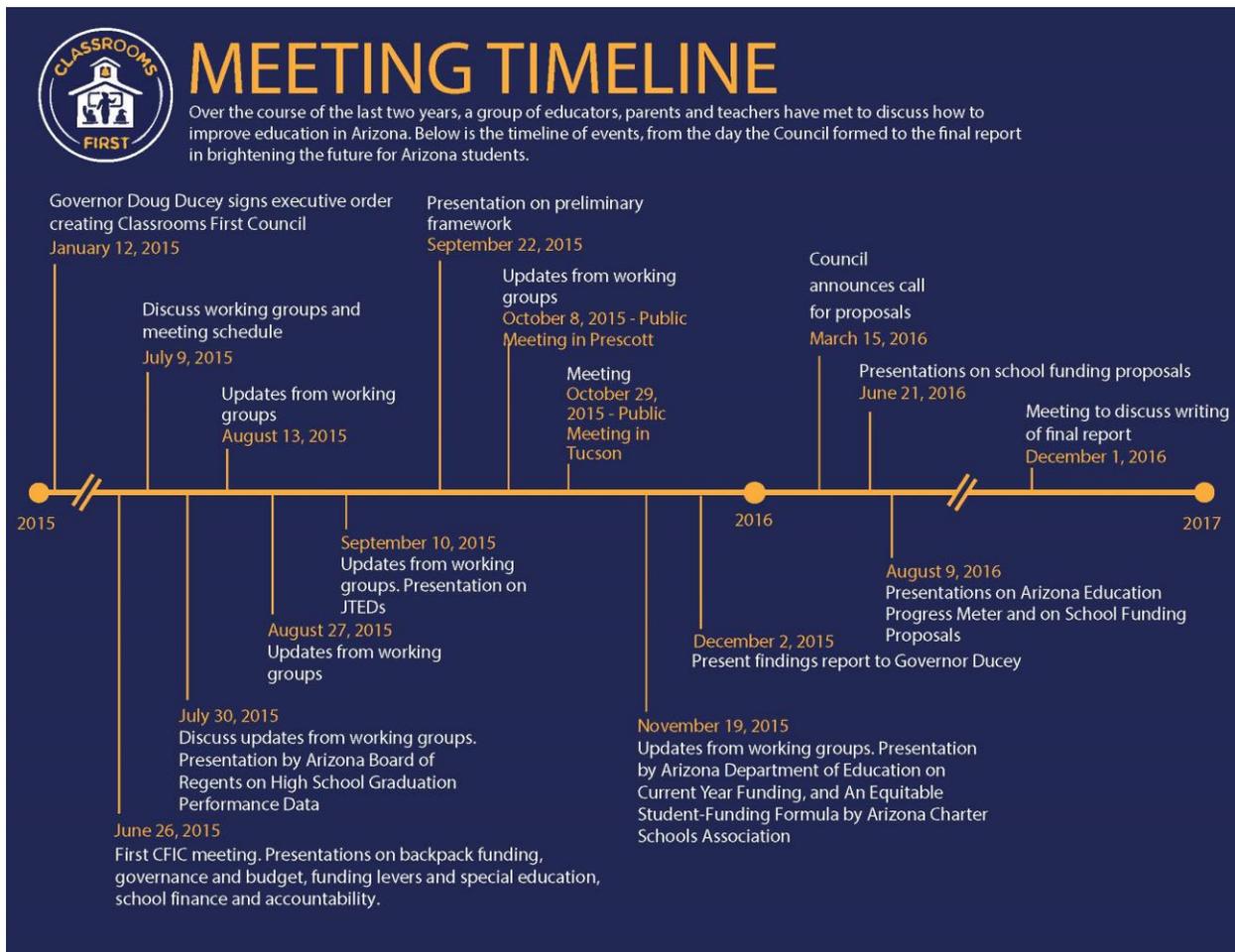
Recommendation 9: Endorse the Arizona Education Progress Meter.

Recommendation 10: Tackle the Teacher Shortage head on through: a) increasing teacher salaries across the board, b) incentivizing teachers who transfer or remain teaching in high poverty, rural, and remote schools, c) expanding teacher loan forgiveness programs, d) developing mentoring programs and e) streamlining certification requirements.

Recommendation 11: Close the Achievement Gap by: a) addressing early literacy needs with a funding priority in low-income communities, b) rewarding academic outcomes, with special focus on high performing, low-income schools, c) instituting a poverty indicator to address gaps in achievement (and to resolve student funding inequities across school systems), and d) addressing student learning inequities in rural communities.

Recommendation 12: Conduct an actuarial cost study on special education and identify ways to address adequacy of funding based on study results.

TIMELINE OF COUNCIL WORK



BACKGROUND INFORMATION

In December 2015, the Council published its [first findings report](#) to Governor Ducey. In that report, the Council requested an extension of 6-9 months to complete its charge. The Council agreed at that time, given the opportunity, to pursue work beyond December 2015. The decision to request an extension was not taken lightly. Certainly, the magnitude of the issues warranted more time on task. Additionally, the Council recognized that the outcome of Proposition 123 and the impact of key budget and policy issues during the 2016 legislative session could change the educational landscape and create new avenues of discussion. Governor Ducey granted the extension through the issuance of a new [Executive Order](#).

PROPOSITION 123

In October 2015, the Legislature passed and the Governor signed an education funding plan to settle a five-year lawsuit by infusing an estimated \$3.5 billion over ten years into Arizona's K-12 public education system.

On May 17, 2016, Arizona voters approved Proposition 123. The plan increases funding to \$3,600 per-pupil through a combination of State General Fund dollars and an increase in distributions from the Permanent State School Fund (State Land Trust). Additionally, each year for the next five years, \$50 million will be provided for general maintenance and operations for public schools. In the subsequent five years, this amount increases to \$75 million. In Fiscal Year 2016, these increases will generate approximately \$224 million in additional funds. Each year thereafter, the \$3,600 per-pupil will increase for inflationary adjustments.

Proposition 123 increases the distribution of funds from the Permanent State School Fund from 2.5% to 6.9% to public schools for ten years, but also includes fiscal protections for the State General Fund and the Permanent State School Fund, to protect these funding sources from the impact of significant economic downturns.

2016 LEGISLATIVE SESSION

In the [December 2015 report](#), citing issues brought forth by the Arizona Department of Education and through public input, the Council expressed concern that the transition to current-year funding for school districts should be phased in over a period of years. The Legislature elected to suspend the implementation of current-year funding for one year. Additionally, the Legislature restored \$28 million in Joint Technical Education Districts funding that was slated to be reduced in fiscal year 2016-2017.

ARIZONA EDUCATION PROGRESS METER

Expect More Arizona and the Center for the Future of Arizona collaborated to create the Arizona Education Progress Meter (Progress Meter), which elevates a set of widely accepted education indicators by which Arizonans can measure our state's progress in education in Arizona from early childhood education through college and career. The Progress Meter utilizes the most current statistics available to create a simple, visual way to: a) set goals for education in Arizona, b) assess the status of education, at the statewide level and for individual counties, c) celebrate stories of success of things that are working in education and e) take action to support education.

The Progress Meter represents a collaboration of government agencies, nonprofits, education and business groups from around the state, with more than 40 organizations signing on as endorsers. The indicators include the following eight data points, with information available at the state and county levels on most measures:

- **Postsecondary Attainment:** % of Arizona residents completing a 2 or 4 year degree (job credential and certificate data to be included at a future date).
- **College Going:** % of Arizona high school graduates attending a post-secondary institution.
- **Opportunity Youth:** % of youth 16-24 in school or working.
- **High School Graduation:** % of Arizona high school students graduating in 4 years.
- **8th Grade Math:** % of Arizona 8th grade students proficient or highly proficient on AzMERIT math.
- **3rd Grade Reading:** % of Arizona 3rd grade students proficient or highly proficient in reading on AzMERIT English Language Arts.
- **Preschool Enrollment:** % of Arizona 3 and 4 year olds enrolled in preschool, including public, private, and homeschool settings.
- **Teacher Pay:** Median Arizona teacher salary as compared to the national median teacher salary.

Over time, Expect More Arizona and the Center for the Future of Arizona will work with stakeholders to identify goals for each individual indicator. This process began with a post-secondary education attainment goal, including certificates, credentials, and degrees, referred to as Achieve60AZ.

ACHIEVE60AZ

Currently in Arizona, only 42 percent of adults have education beyond a high school diploma. However, in less than five years, nearly 70 percent of jobs will require education beyond high school. In order for Arizona to be competitive, the state must focus on increasing the number of individuals who are equipped with a high-value professional certificate or degree.

To that end, a group of 60 community, business, philanthropic, and education organizations throughout Arizona have formed an alliance to support a goal of 60 percent of adults, ages 25-64, with a professional certificate or college degree by 2030. This initiative, called Achieve60AZ, will work to achieve a more highly educated population in order to build Arizona's workforce and attract more business to our state. This will increase the tax base and decrease poverty. Increasing the number of Arizonans who earn education beyond high school will lead to a more diverse, knowledgeable, and innovative workforce that can compete nationally and globally. Achieve60AZ focuses on four main strategies:

- Strengthening the K-12 Pipeline – Increase college readiness and high-school graduation rates.
- Completing Credentials – Implement policies to make it easier for Arizonans to finish their certificates or college degrees.
- Increasing Access – Raise awareness about options beyond high school and make them more affordable.
- Aligning Workforce Needs – Engage businesses, governments, and educators to identify and close the skills gap.

STATUS OF ACADEMIC STANDARDS, ASSESSMENT, AND SCHOOL ACCOUNTABILITY

Currently, the State Board of Education, in conjunction with the Arizona Department of Education, is in the final stages of adopting new Arizona Academic Standards (December 2016). According to the State Board of Education, full implementation of the standards should occur in school year 2018-2019, with the 2017-2018 school year serving as a transition year for the modification of the state assessment to be aligned to new standards. The State Board of Education, through an Ad-Hoc Committee, and in conjunction with the Arizona Department of Education, is developing the state's new A-F accountability system. Current statute requires the implementation of the new accountability system in school year 2017-2018.

SUMMARY OF PROPOSALS

In March 2016, the Council announced that it would seek school finance reform proposals from the field, in line with the findings included in the December 2015 report to Governor Ducey. Stakeholders urged the Council to consider a deadline date that would allow sufficient time after the conclusion of the 2016 legislative session and the Proposition 123 campaign. The Council settled on a deadline date of May 27, 2016 and later extended that date to June 6, 2016. The Council received 14 proposals as summarized below by each organization:

A FOR ARIZONA

Arizona's new school funding formula should be designed to support the gains in achievement being made across the state. Our goal must be enabling more and more students access to the highest quality of schools in the shortest period of time. That means we recognize and sustain the work of high performing schools, and ensure their ability to serve more students or teach others how to do their work. Therefore, the new formula should offer higher levels of support for excellent schools that promise to serve more students via their own growth or by mentoring

others and asserting a much needed leadership role. “Achievement Weights” should be added to the funding formula and should be tiered for student income so that highly performing schools serving low-income students earn a much higher amount. A new single funding formula should include all funds required for school facilities and operations, and must work for all students and in all schools across the state. Equity in a school funding formula will only be attained by funding that seeks to support the specific needs of students, regardless of where in Arizona they live or attend school. Finally, the money dedicated to students must follow them all the way into their schools and classrooms, and accounting must be transparent at the school versus at the district or network. It is imperative that families, school staff, and local communities have confidence that the investment meant primarily to support teachers is a first priority at the school site itself.

Arizona Chamber of Commerce and Industry

Arizona is one of the few states to show consistent gains statewide in the National Assessment of Educational Progress. We have a cohort of schools and educators doing more to close the achievement gap than nearly any state in the country and many nationally recognized campuses. Students are achieving these results in a growing list of school design options. Unfortunately, the state funding mechanisms for these increasingly nimble schools remain inequitable, inflexible, overly centralized, and blind to results. As a result, we are slower than we should be in moving under-educated students to high-quality classrooms. Further, the labyrinth of tax burdens treats businesses and schools unfairly. As we move this work forward we must: sustain and grow excellence; have a rational property tax system; and rethink the design and distribution of the funding formula.

Arizona Schools Now

Arizona’s school finance formula cannot be effective without including significant additional revenue for public education. While we agree that the current funding formula can be improved, it is the inadequate amount of revenue invested, combined with the fact that the existing formula has not been fully funded in recent years, that causes the most strain for Arizona’s public schools. We also believe that one of the most significant steps that needs to be taken to make the school finance formula more equitable and fair is to provide an additional weight for students based on poverty. We also support the implementation of fair, stable, statewide structures to pay for additional investments needed and provide district and charter schools equal access to total revenues per students – a statewide property tax is an example of such a structure that couple possibly be considered. Finally, we believe an achievement weight

will only create an uneven playing field and greater distance between the high performing and low performing schools, and it will be the students who attend the low performing schools who suffer the consequences.

Arizona School Boards Association (ASBA)

While Arizona's school finance system is highly equitable, it is not adequate. Every year, school districts are faced with difficult decisions because funding is not sufficient for things like building maintenance and supplies, special education, and transportation. The true cost of these items should be evaluated and a dedicated, stable revenue source should be identified to fund them. Further, a poverty weight must be added to the current formula. Arizona is a high-poverty state with a majority of its students qualifying for free and reduced lunch. These students face unique educational challenges that must be met with additional resources and support to help them succeed. State funding for education should be adequate to meet the needs of a competitive 21st century education system. However, local communities should have the opportunity to go beyond state funding to improve capital facilities and fund special programs within their districts through bonds and overrides. In addition, flexibility for school district governing boards to allocate their available resources within budget to local needs should be retained. Local control is something that Arizona communities value and it should be preserved.

Arizona Alternative Education Consortium

It is imperative that Arizona provides additional funding for alternative education. Funding these schools is a state decision. Increased funding is needed because unlike schools serving low-socioeconomic students that receive federal subsidies, there are no additional federal funds for schools educating alternative education youth. Further, because the mission of the alternative schools is to keep students engaged and in school, most alternative schools accept students after the 100th day count when state funding is calculated. Additional funding would allow alternative schools to hold true to their mission for the entire school year. Finally, alternative education in Arizona significantly contributes to society by providing educational opportunities to a growing population of unique students. Based on data from the 2014 WestEd study, *How Arizona's dropout crisis affects communities, Creates economic losses for the State of Arizona*, the Consortium calculated a 20 to 1 Return on Investment when educating these high-risk Arizona citizens. With such a high rate of return, providing additional funding for alternative schools serves not only this population of students, but the population of Arizona as a whole.

Arizona Charter Schools Association

The Arizona Charter Schools Association has presented an equitable student-funding formula concept that addresses the inequities of student funding, is substantially uniform among school districts and charter schools, and strives to be revenue neutral. Please note that the calculations originally provided to the Council assumed full funding of the formula and did not reflect recent reductions to additional assistance for school districts and charter schools. These goals are accomplished by maintaining the equitable components of the M & O formula that uses weights to fund the individual needs of students. However, it departs from current school district reliance on property taxes by reducing the need for school district bonds and overrides and property taxes in general. In lieu of local property taxes, the guaranteed minimum funding for all school district students is dramatically increased through the use of a uniform additional assistance amount for all students. This proposal also seeks to simplify the transportation funding formulas; including making funding available to all school districts and charter schools that transport children. Recognizing the diverse needs of remote or isolated schools and the realities of extraordinary special education costs, it provides mechanisms for addressing these concerns. Finally, it proposes taxpayer equity through the use of a uniform statewide Qualified Tax Rate (QTR) that is collected at the state and used to offset student funding formula costs.

School District Consortium

A coalition of 8 school districts – commonly called “Desegregation districts” -- submitted a proposal, entitled Equity Funding in Arizona, that would provide a roadmap for changes in how programs to address “vestiges of discrimination” are funded. Currently, 18 school districts are authorized to levy a property tax in order to fund programs to address issues that have either been the subject of a federal court order, or were negotiated as a consent agreement with the U.S. Department of Justice Office of Civil Rights (“OCR”). The proposal submitted by the Coalition calls for a long term partial substitution of the desegregation property tax levy with sustainable changes to the school funding formula weights for cohorts of students in all districts based on special needs, language proficiency, and/or poverty. Accompanying the proposal was a letter from the Superintendents of Tucson Unified School District and Phoenix Union High School District endorsing the tenants of the Equity Funding proposal. Both of these districts are unique in that they are, or were, under Federal court supervision, and are therefore not authorized to unilaterally modify the elements of curriculum, student support, and programs that are designed to address the requirements of their respective court orders. Therefore, any changes made to the school finance formula and the Desegregation Levy Authority authorized under A.R.S. § 15(910)G must specifically accommodate the prerogatives of the Districts as they

work in conjunction with either the federal court or in ongoing compliance with their post-unitary Status plan.

Arizona Connections Academy (ACA)

In 2009, the Arizona Legislature decided to reduce the per pupil funding that Arizona Online Instruction schools (AOIs) receive to 95% of what other traditional schools receive. The submission by ACA describes the conditions and costs associated with delivering virtual instruction, including investment in technology and an effective curriculum. It also notes that AOIs, like other schools, spend most of their funding on personnel costs and compete in the marketplace for teaching talent. ACA requests that the Council include consideration of restoring AOIs to 100% funding for full time programs to restore the equity of funding among all school types and to base funding upon students' individual learning needs instead of the delivery method.

Arizona Parents for Education

Arizona Parents for Education would like to ensure that online students are taken into account when considering a new funding formula. Arizona's online learning community is growing and each of these students deserves full and equal per pupil funding. The costs for online school are different but are not in fact less. For example, in a traditional brick and mortar school, students can all share a small group of microscopes; however, in our schools every single student is mailed one to their home. These types of costs were never fully appreciated nearly ten years ago when online learning was in its infancy. But now we see a wide variety of schools, from districts, charters, hybrids, and full-time online schools being short changed on resources our kids need.

Craig Hazeltine, Education Advocate

The Classrooms First Initiative Council's mandate to not focus on new revenue limits its role to promoting efficiencies and reallocating resources. In the spirit of truly promoting system efficiencies (more resources to the classroom) and responsibly allocating resources for the maximum public good, this report urges the Council to reject any subversive strategies and to address the following issues often associated with charter schools: a) excessive administrative costs, b) high facility costs, and c) over-use of tax credits to supplement funding.

Stand for Children Arizona

Stand for Children Arizona would like to make recommendations focusing on three key priorities: a) base the school finance formula primarily on a system of student weights aligned

to current/updated known cost drivers, b) add a poverty weight, or similar multiplier to compensate for the socioeconomic factors that affect student learning, and c) design any specific property tax proposal to ensure equal access to revenues among districts at a comparable tax rate. We recommend that these, or any of the policy recommendations that move forward, be focused on methods to help Arizona reach state-wide outcome goals, preferably aligned with Achieve60AZ, and the Education Progress Meter. It should also be noted that due to the likelihood of possibly creating “winners” and “losers” by refreshing Arizona’s school finance system, ideally, formula design changes and any revenue enhancements must be considered together.

JTED Consortium

Funding for Joint Technical Education Districts (JTEDs) must be included in the K-12 comprehensive funding formula and it must include 9-12 grade students and District Additional Assistance (DAA). JTEDs need to be funded from .25 to 1.00 based on seat time, with member districts receiving their full 1.00. JTED students who are transported to central campus locations need to receive an additional weight in the school transportation formula. Finally, all Arizona Department of Education rules, based on statutory requirements, need be completed within the fiscal year of the statute being enacted.

Holbrook Unified School District

There is a true cost and disadvantage to some districts due to geographic location, therefore the state should look at schools as urban, suburban, rural, and remote and fund accordingly. In addition, a similar approach should be considered when looking at transportation costs. The per mile rate does not include capital cost of operation buses under some of the extreme environments in rural and remote districts.

Arizona Association of School Business Officials (AASBO) and Education Finance Reform Group (EFRG)

For per pupil formula changes, increase the base level, while eliminating items such as teacher’s compensation plan, group A weights, and teacher experience index. Additionally, create group B weights that adequately fund special education. Set Additional Assistance for all public schools at the same level. Place all public schools on a uniform transportation reimbursement formula that includes state set rates for reimbursement on contracted transportation providers. Fund a School Facilities Board grant program to address capital needs in public schools. Funding

for all of these items would come from an implementation of a statewide property tax or revision to current State Equalization Tax Rate.

COMMON REFORMS FROM PROPOSALS

Systematic Reforms	School Type Reforms
<ul style="list-style-type: none"> • Create a simplified formula (collapse variables) • Create a single formula for all public schools • Continue unique student and school weights • Reduce reliance on local property taxes outside the revenue control limit • Develop single and uniform statewide tax rate • Increase teacher salaries • Reward performance with focus on low-income schools • Institute poverty reward or system weight • Focus on early literacy • Complete special education & ELL actuarial study w/ consistent reporting mechanisms • Structure system resources as fungible, flexible, and lump sum • Reduce regulation & reporting • Revise current capital finance system • Discuss Proposition 301 renewal 	<ul style="list-style-type: none"> • Incentivize teachers at Title I schools • Restore funding to online schools at 100% • Alternative schools weight (Group B) • Rural schools (transportation) • Restoration of JTED funds (reductions, 9th grade, transportation)

RECOMMENDATIONS (EXECUTIVE ORDER)

Recommendation 1: Develop a simplified and single school finance formula for all public schools.

Recommendation 2: Create standardized and consolidated tax rates across school district taxing jurisdictions to develop a predictable, equitable and fair funding structure for individuals and businesses in combination with state General Fund appropriations that contributes to all K-12 students.

Recommendation 3: Reduce reliance on local property tax funding generated outside of the revenue control limit through exploration of alternative funding sources for targeted programs.

The Council's guiding principles emphasize that an overhaul of school finance should be entered into through a comprehensive approach. As such, the Council was encouraged by proposals submitted by several organizations offering systemic solutions that address the inequities of student funding in a manner that is significantly uniform among school districts and charter schools – through a single school funding formula. These proposals included similar tax proposals that over time would minimize reliance on local property taxes – while still allowing for local control.

The Council stressed many times over its work that this part of their charge was the most complex and difficult to complete. While the Council has identified the “what” and the “why”, this report does not provide the “how.” However, the Council was optimistic that the many commonalities present in proposals submitted by organizations that historically have approached school finance differently signals a willingness to collaborate on the next step of this process.

The Council received several comprehensive proposals (See Exhibit XXI) which provide potential solutions for fully or partially reducing the reliance on local property taxes for items outside of the revenue control limit (overrides, bonds, and items such as desegregation) through a shift to a broader and/or targeted state investment. Several of these proposals had common factors that the Council suggested could be a good starting point for resolving the issue of funding inequities.

Several proposals identified variables in the funding formula that could be collapsed into a base per-pupil amount for simplicity, efficiency, and flexibility in funding distribution. For example, Group A weights are applied to all students. Originally intended to support a specific purpose, these dollars are now broadly allocated.

Recommendation 4: Operationalize school finance laws in rule to increase efficiency in implementation and the understandability of our system of public finance.

These statutes can then be more simply rewritten, reorganized, and more easily accessible for policymakers, business leaders, educators, administrators, and parents to interpret and apply for their own respective needs.

Recommendation 5: Allocate resources to public schools in lump sum funding and provide all public schools with the ability to operate without the constraints of onerous regulations.

The Council agreed that the allocation of resources for school districts should be made more flexible through lump sum funding, accounting and fund simplification, and full expenditure flexibility. Unlike charter schools, school districts' financial accounting structure is constrained, and as a result it creates inefficiencies and unnecessary spending behaviors. Additionally, high-performing public schools should have additional flexibility to expand and replicate without the burden of regulatory, formulaic, and structural constraints. Current Arizona Revised Statute § 15-215 allows a school district or charter school that has an "A" grade for at least two of three consecutive years to be exempt from certain statutory restrictions including teacher certification, health and safety, state academic standards and assessment, financial compliance and procurement, and school accountability. To note, there are many other regulations that are not included in this statute. To date, no school district or charter school has been granted an exemption. The State Board of Education should be encouraged to review its evaluation criteria and the list of regulations from which high-performing schools may be exempt.

Recommendation 6: Direct school systems to provide parents with school-level reports that account for actual per-pupil resources generated through the formula and the budgeted amount allocated to the school.

School-level reporting requires clear and concise reporting of financial data (total revenues generated as compared to actual allocation), simpler and more understandable spending categories for parents to decipher, and easy-to-access information posted digitally or available to parents as part of their enrollment packets. While this information exists in its technical form, it is not easy to access. School-level reporting for all public schools will provide more

comparable data for policymakers, taxpayers, and parents about the school that their child attends.

Recommendation 7: Develop a parent portal to explain Arizona’s school finance system that includes a mechanism in which parents can calculate the amount their child generates through the state’s funding formula.

Parents should have digital, online access to annual information that explains how their child generates funding for their school.

Recommendation 8: Empower school leaders to be more actively involved in internal budgetary processes, not only at their school level, but through system-wide budgetary decisions.

The Council discussed that school administrators should, where appropriate, seek to empower school leaders to be more actively involved in decision-making about school-level staffing, budgeting, and reporting processes. School districts and charter schools should develop more robust internal systems in which principals and other school leaders are involved in budgetary decisions, not only at their school level, but are also empowered to be more impactful in school system-wide budgetary decisions.

RECOMMENDATIONS (COLLECTED FROM STAKEHOLDERS)

Recommendation 9: Endorse the Arizona Education Progress Meter.

Supported by over 40 business and education organizations, the Progress Meter was developed to: a) provide an easy way to track progress in education, from the early years through attainment, b) track progress at state, county, and school levels, c) inform policy, and d) share stories of what is working and ways to take action.

Recommendation 10: Tackle the Teacher Shortage head on through: a) increasing teacher salaries across the board, b) incentivizing teachers who transfer or remain teaching in high poverty, rural, and remote schools, c) expanding teacher loan forgiveness programs, d) developing mentoring programs and e) streamlining certification requirements.

The Council believes that Arizona needs committed individuals who want to be teachers, who are good at their jobs and who want to stay in the profession for a long time. The Council heard

from teachers themselves that they want their profession elevated to high regard, they want to be paid fairly, and they want support and training to do their jobs well.

Recommendation 11: Close the Achievement Gap by: a) addressing early literacy needs with a funding priority in low-income communities, b) rewarding academic outcomes, with special focus on high performing, low-income schools, c) instituting a poverty indicator to address gaps in achievement (and to resolve student funding inequities across school systems), and d) addressing student learning inequities in rural communities.

Early Literacy – The Council received tremendous feedback on the importance of early literacy for all students, particularly in the lives of children living in poverty. Research shows that the size of a young child’s vocabulary is a strong predictor of reading – which in turn, is a strong predictor of future academic and socioeconomic success. To close the achievement gap, literacy marks the first major benchmark in a young student’s life. The goal of literacy is broadly accepted, but testimony and engagement with school systems identified a variety of best practices currently used in successful schools which could be expanded with additional resources. The Council received a full presentation on the significant value of all-day kindergarten, the impact of a quality early education program on kindergarten preparedness, longer school day and longer school year (200-day model), reading coaches, interventionists, and tutoring programs.

Targeted funding for low-income students – Schools located within low-socioeconomic communities often face unique academic challenges. Low-socioeconomic schools traditionally enroll more students with achievement gaps, and unfortunately, these students rarely catch up to their peers. Arizona’s recent NAEP scores show that many Arizona students and schools are defying this trend. Schools with students who demonstrate significant achievement gaps employ higher-cost individual intervention strategies to support their students. The Council had significant conversation related to targeted resources for low-income students using a poverty indicator. While poverty is typically identified in school systems through free and reduced lunch, the Council noted that not all schools report through the school lunch program and that in addition to free and reduced lunch statistics, a broader definition of a poverty indicator should be explored.

It should be noted that the Council discussed the “what” and the “why” of Achievement Weight and Poverty Indicator at length. However, the “how” was not uniformly agreed upon by the Council. Council members discussed these items as separate standalone weights, in either permanent and/or transitional funding methodologies.

Several proposals submitted by education groups addressed the issue of closing the achievement gap. For example, the proposal submitted by Arizona Alternative Education Consortium highlighted unique challenges of alternative education youth, most from low-income homes, who struggle with learning disabilities, homelessness, or traumatic life events.

Additionally, a proposal submitted by Superintendents of desegregation school districts suggested that funding pursuant to a “poverty indicator” could be offered as a solution to the phasing out of desegregation (a student equity concern within the original Executive Order).

Rural Communities - Based on a proposal submitted by the Superintendent of Holbrook Unified School District, rural communities, disadvantaged by geography and access, struggle to provide equitable education to their students. Purchasing power is disparate, quality teachers are scarce, and transportation costs are considerably more challenging than in urban environments.

Recommendation 12: Conduct an actuarial cost study on special education and identify ways to address adequacy of funding based on study results.

The Council believes that the state should conduct an updated cost study, or use the 2007 cost study for special education students, to identify the true costs of special education. In 1980, the distribution of special education students in public schools was evenly spread out; however, with more opportunities for parents to choose which schools their children attend (open enrollment and charter schools), special education student populations have become more concentrated in some schools. The net effect of the uneven distribution and the unmet costs of special education services is that a general education student’s backpack funding is often used to address the mandatory costs of special education. The first step to student funding portability is to recognize the actual costs of each student and ensure that each student’s backpack is truly his or her own.

The Council recommends that statutes should be updated regarding the “Extraordinary Special Needs Fund” for high-cost special education students. Again, Arizona’s robust school choice laws allow students to attend the public school of their choice. If a student with extraordinary special needs enrolls mid-year, public schools may not be able to appropriately budget for these high costs. Arizona Revised Statute § 15-774 currently provides guidance on how to apply for unexpected enrollment of a high-cost student with disabilities. Using other states such as Colorado as an example, the statute can be modified to address costs through a tiered approach based on disability category. This is another step to ensuring that each student’s backpack remains his or her own.

OTHER CONSIDERATIONS

This report does not address three areas of concern raised by the Council. While Council members agree that these issues require further study, the scope was too extensive and significantly beyond the charge of [Executive Order 2015-02](#) and [Executive Order 2016-04](#).

- Capital Finance Reform
- Proposition 301 renewal
- Proposition 123 expiration

ACKNOWLEDGEMENTS

SPECIAL RECOGNITION

THE COUNCIL WOULD LIKE TO FORMALLY RECOGNIZE MR. JOE GEUSIC, THE “EDUCATION LORAX”, FOR HIS DEDICATION AND COMMITMENT TO EDUCATION IN ARIZONA.

“UNLESS SOMEONE LIKE YOU CARES A WHOLE AWFUL LOT,
NOTHING IS GOING TO GET BETTER. IT’S NOT.”

– DR. SEUSS, *THE LORAX*.

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EXHIBITS

I. EXECUTIVE ORDER – JANUARY 12, 2015

II. EXECUTIVE ORDER – JUNE 15, 2016

III. PRESS RELEASE – MAY 22, 2015

IV. WORKING GROUPS AND MEETING SCHEDULE

V. BACKGROUND ON SCHOOL FINANCE FROM DECEMBER 2015 REPORT

VI. JUNE 26, 2015 MEETING

A. AGENDA AND MINUTES

B. SCHOOL FINANCE AND ACCOUNTABILITY PRESENTATION

C. FUNDING LEVERS PRESENTATION

D. SPECIAL EDUCATION PRESENTATION

E. SCHOOL GOVERNANCE PRESENTATION

F. SCHOOL BUDGET PRESENTATION

G. BACKPACK FUNDING PRESENTATION

VII. JULY 9, 2015 MEETING

a. AGENDA AND MINUTES

VIII. JULY 30, 2015 MEETING

A. AGENDA AND MINUTES

B. HIGH SCHOOL GRADUATE DATA PRESENTATION – ARIZONA BOARD OF REGENTS PRESENTATION

C. EQUITABLE FUNDING STRUCTURE WORKING GROUP PRESENTATION

D. INCENTIVES FOR EXCELLENCE WORKING GROUP PRESENTATION

E. STUDENT CENTERED LEARNING PRIORITIES WORKING GROUP PRESENTATION

IX. AUGUST 13, 2015 MEETING

A. AGENDA AND MINUTES

A. EQUITABLE FUNDING STRUCTURE WORKING GROUP PRESENTATION

B. INCENTIVES FOR EXCELLENCE WORKING GROUP PRESENTATION

C. STUDENT CENTERED LEARNING PRIORITIES WORKING GROUP PRESENTATION

X. AUGUST 27, 2015 MEETING

A. AGENDA AND MINUTES

A. EQUITABLE FUNDING STRUCTURE WORKING GROUP PRESENTATION

B. INCENTIVES FOR EXCELLENCE WORKING GROUP PRESENTATION

C. STUDENT CENTERED LEARNING PRIORITIES WORKING GROUP PRESENTATION

XI. SEPTEMBER 10, 2015 MEETING

- A. AGENDA AND MINUTES
- B. JTED PRESENTATION – PIMA COUNTY JTED

XII. SEPTEMBER 22, 2015 MEETING

- A. AGENDA AND MINUTES
- B. PRELIMINARY FRAMEWORK PRESENTATION

XIII. OCTOBER 8, 2015 MEETING

- A. AGENDA AND MINUTES

XIV. OCTOBER 29, 2015 MEETING

- A. AGENDA AND MINUTES

XV. NOVEMBER 19, 2015 MEETING

- A. AGENDA AND MINUTES
- B. IMPORTANCE OF INVESTING IN EARLY CHILDHOOD LITERACY
- C. CURRENT YEAR FUNDING – ARIZONA DEPARTMENT OF EDUCATION
- D. AN EQUITABLE STUDENT-FUNDING FORMULA – ARIZONA CHARTER SCHOOLS ASSOCIATION

XVI. DECEMBER 2, 2015 MEETING

- a. AGENDA AND MINUTES
- b. CFIC POWERPOINT
- c. REPORT: K-12 SCHOOL FINANCE FINDINGS

XVII. MARCH 15, 2016 MEETING

- a. AGENDA AND MINUTES
- b. CFIC POWERPOINT

XVIII. JUNE 21, 2016 MEETING

- a. AGENDA AND MINUTES
- b. CFIC POWERPOINT
- c. STAND FOR CHILDREN FUNDING PROPOSAL PRESENTATION
- d. A FOR ARIZONA FUNDING PROPOSAL PRESENTATION

XIX. AUGUST 9, 2016 MEETING

- a. AGENDA AND MINUTES
- b. ARIZONA EDUCATION PROGRESS METER-EXPECT MORE AZ AND CENTER FOR THE FUTURE OF AZ

XX. DECEMBER 1, 2016 MEETING

- a. CFIC POWERPOINT

XXI. PROPOSALS

- a. AZ SCHOOLS NOW
- b. ARIZONA SCHOOL BOARD ASSOCIATION
- c. ARIZONA CONNECTIONS ACADEMY
- d. ARIZONA PARENTS FOR EDUCATION
- e. ARIZONA ALTERNATIVE EDUCATION CONSORTIUM
- f. HOLBROOK UNIFIED SCHOOL DISTRICT
- g. CRAIG HAZELTINE – EDUCATION ADVOCATE
- h. AASBO & EDUCATION FINANCE REFORM GROUP (EFRG)
- i. A FOR ARIZONA
- j. STAND FOR CHILDREN
- k. ARIZONA CHAMBER OF COMMERCE AND INDUSTRY
- l. SCHOOL DISTRICT CONSORTIUM
- m. JTED CONSORTIUM
- n. ARIZONA CHARTER SCHOOLS ASSOCIATION

XXII. PUBLIC FEEDBACK

- a. OCTOBER 8 - OCTOBER 28, 2015
- b. OCTOBER 29 - NOVEMBER 18, 2015
- c. NOVEMBER 19 - DECEMBER 1, 2015
- d. DECEMBER 2, 2015 - MARCH 14, 2016
- e. MARCH 15 - AUGUST 4, 2016
- f. AUGUST 5 - DECEMBER 1, 2016
- g. DECEMBER 2 - DECEMBER 13, 2016